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¶1. (U) Summary. This is Volume 8, issue 45 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Reserve Bank: Crisis Hurts South Africa
- Manufacturing Activity Slows Down
- More Pain for House Sellers
- Ford Motor Company Executive Points to Inferior Infrastructure, High-Priced Utilities, and Labor Disruptions as Obstacles to Global Competitiveness
- Worst Car Sales Picture Since '94
- Bilateral Trade and the President-Elect
- ANSAC Settles Cartel Case - The End of the Soda Ash Saga
- Hyundai Hopes to Leverage World Cup Sponsorship
- August Arrivals Data Reflect Global Slowdown
- Blackouts Loom in 2009 as Electricity Saving Fails
- Political Nuclear Meltdown
- Companies Set Aside Land to Preserve Grasslands

End Summary.

Reserve Bank: Crisis Hurts South Africa

¶2. (U) The local economy cannot expect to be immune from the global financial turmoil, reports the South African Reserve Bank's (SARB) latest Monetary Policy Review (MPR). The SARB believes its own policymaking may be complicated "for some time" as a result of the financial crisis. One of the consequences of the financial turmoil has been a decline in commodity prices, reported the SARB. "From a narrow inflation perspective this means that one of the biggest risk factors to the inflation outlook has subsided significantly," it said. According to the SARB, this factor, in conjunction with the widening output gap and subdued household consumption expenditure, indicates some of the pressures on inflation "may be abating." However, another risk has emerged in the form of the rand exchange rate which, along with other emerging-market currency exchange rates, has been negatively affected by the global turmoil. "The impact of the exchange rate on the inflation outlook will depend, to a significant degree, on the extent to which these new levels are sustained," said the SARB. While inflation is set to return to the 3%-6% range in the second quarter of 2010, the SARB said that in a

world of "heightened turmoil and uncertainty," the risks to the outlook are "amplified." The SARB reiterated, "Monetary policy will continue to focus on the expected medium-term inflation outcomes and will act appropriately to ensure that inflation returns to within the inflation target range over a reasonable time frame." (I-Net Bridge, November 5, 2008)

Manufacturing Activity Slows Down

¶3. (U) South Africa's purchasing managers index (PMI) dipped from 47.7 index points in September to 46.2 index points in October, said PMI sponsor Investec. The latest PMI, a measure of the country's underlying manufacturing activity, reflected the challenging economic environment facing producers partly due to slowing domestic demand. "Not only is domestic demand slowing, but there is increasing evidence of further moderation in growth by our most important trading partners," said Investec Asset Management Portfolio Manager Mokgatla Madisha, adding that interest rate hikes and higher inflation are weighing on domestic demand. Madisha added
Qand higher inflation are weighing on domestic demand. Madisha added the PMI could fall further over the next six months as the bleak outlook for the world economy pushes the recovery in the index further into the future. (Beeld, November 5, 2008)

More Pain for House Sellers

¶4. (U) South African house prices decreased by 2.5% year-on-year (y/y) in October, as demand for property remained depressed, a Standard Bank property survey showed. "The reduced affordability of housing, exacerbated by higher mortgage rates, high food and fuel

prices and a slowing economy, led to a decline in the demand for residential property and a substantial softening in house price growth," Standard Bank said in a statement. Standard Bank said the housing sector would likely remain under pressure until the second quarter of 2009. Economists expect interest rates to start falling in the first quarter of 2009 after the targeted CPIX inflation (CPI less mortgage interest) slowed for the first time, from a record high of 13.6% in August 2008 to 13% in September. (Fin 24, November 5, 2008)

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Ford Motor Company Executive Points to Inferior Infrastructure, High-Priced Utilities, and Labor Disruptions as Obstacles to Global Competitiveness
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¶5. (U) Ford Motor Company EVP for Asia Pacific and Africa John Parker told an audience at the Johannesburg International Motor Show on November 5 that protectionism and high labor costs were the reasons why South Africa's motor industry had higher production costs than countries like India, China and the ASEAN countries. He said that while South Africa's Motor Industry Development Program was necessary, the protection it provided was largely responsible for the country's higher production costs. He also noted that South Africa's labor costs were seven times the average wage in Thailand, while GDP per capita was only 20 percent higher in South Africa. Parker warned that South Africa could not continue to protect its motor industry in the long term and still be globally competitive. He said that Ford also needed to work with labor to increase the efficiency and productivity of its work force. A key area where productivity needs to improve is the country's ports, which are among the world's costliest and least efficient. "South Africa's ports are nearly five times the cost of Thailand's Laem Chabang port, yet deliver on average one-fourth of Laem Chabang's productivity," he said. Inferior infrastructure that creates inefficient logistics systems, high-priced utilities that still do not guarantee supply, and frequent labor disruptions that cost auto makers in precious downtime - all contribute to an environment of higher operating costs and greater uncertainty," he said. (Business

Report, November 6, 2008)

Other Ford executives noted that Mercedes, BMW and Toyota have already found a way to become globally competitive in South Africa, but that Ford had not yet reached that level of productivity. Ford's January 2008 announcement of a planned $150 million investment to produce the company's next-generation, T-6 pick-up in Silverton, Pretoria and the Puma diesel engine in Struandale, Port Elizabeth is part of the company's overall plan to become globally competitive by increasing production volumes to improve economies of scale and raising local content to reduce transport costs. Another part of the plan is to find a more efficient and productive way of working with the labor force. The same executives noted that while progress had been made in recent negotiations with the union, more progress needs to be made.

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Worst Car Sales Picture Since '94

¶6. (U) According to the National Association of Automobile Manufacturers of South Africa (NAAMSA), new vehicle sales deteriorated further in October, plunging by more than 30% to 54,569 units compared with the same month last year. This is the worst car sales month on a year-on-year basis since September 1994. NAAMSA said sales for the first ten months of the year were 19% lower than the same period last year. NAAMSA attributed the substantial fall to higher-than-average new vehicle price increases in recent months and the extraordinary loss of confidence in global financial markets in recent weeks. T-Sec Chief Economist Mike Schussler said car price rises in light of a weak rand mean that sales will not recover quickly. "It is a bad period here for car sales. We should not have interest rates this high at this time," said Schussler. (I-Net Bridge, November 4, 2008)

Bilateral Trade and the President-Elect

¶7. (U) The South African government anticipates that Barack Obama's

election will provide a boost for trade between Africa and the US. The cabinet released a statement saying that Obama's election will lay a "solid foundation for the redefinition of America's relations with the rest of the world," while Department of Trade and Industry (DTI) Director General Tshediso Matona told the media that the South African government was planning to up the ante when it came to negotiating trade agreements and that it was setting a "lot of store" by the Obama win. Referring to South Africa's position on global free trade talks, Matona said that the country was committed to returning to them when the conditions were right, and that this was perhaps the opportunity to do so. This is, of course, provided that the new administration in the US does not adopt a more protectionist stance than the outgoing administration had. "We will be watching closely," says Matona, who is confident that the Obama win will boost the outlook for bilateral trade. (Fin 24, November 6, 2008)

ANSAC Settles Cartel Case -
The End of the Soda Ash Saga

¶8. (U) The American Natural Soda Ash Corporation (ANSAC), a U.S. industry body that had been accused of organizing its members as an export cartel, effectively admitted to antitrust violations and agreed to withdraw from the South African market. ANSAC reached a settlement with the Competition Commission, bringing to an end the longest-running case in the Commission's history. ANSAC admitted that its membership agreement had eliminated price competition between its members in export sales in contravention of the Competition Act. ANSAC agreed to stop export sales to South Africa within six months of the confirmation of the agreement and to "make modifications" for members to individually sell into South Africa. ANSAC will pay a R9.7 million ($1 million) fine, which amounts to 8%

of its annual turnover in South Africa. The corporation also agreed to pay the legal expenses of soda ash producer Botswana Ash (Botash), which brought the initial complaint.
It is believed the costs of the case, which dragged on for almost 10 years, were likely to match the size of the fines. ANSAC President John Andrews explained this week that the South African soda ash market was no longer attractive given the costs of the case and the availability of other profitable markets. ANSAC could return to the South African market if the DTI designates the soda ash industry as "strategic." Such a designation would allow ANSAC to obtain an exemption from competition challenge. ANSAC is a group of companies that coordinate efforts in export markets.
The collaborative arrangement is authorized in terms of the U.S. Web Pomerene Act, which allows for such arrangements in export markets, but prohibits them at home. Competition Tribunal Chairman David Lewis recommended that the settlement be posted on the International Competition Network's website and be referred to other countries, such as Brazil, Korea and Mexico, "similarly beset by having to deal with ANSAC". (Business Day, November 5, 2008)

Hyundai Hopes to Leverage World Cup
QHyundai Hopes to Leverage World Cup
Sponsorship

¶9. (U) Hyundai Automotive South Africa showcased its luxury Universe Express bus, which it hoped would play a big part in transporting teams during the 2010 FIFA World Cup. Hyundai contributed $100 million towards the World Cup to secure its place as an official partner. Hyundai Africa and Middle East General Manager Young Cho said the company saw its sponsorship as an opportunity to upgrade its brand image, since it was one of the newest entrants to the market in South Africa. Hyundai commercial vehicles entered the South African market about five years ago. The Universe Express was on display at the Johannesburg International Motor Show. The South African Department of Transport recently issued a tender for 1,422 buses, which it would require for operation during the games. Of these, 210 would be luxury buses. The results for the tender process are expected in January. "We have tendered and are confident we will get our share," said Cho. The company boasted that production lead time of the luxury coach was three months - including shipping. (Engineering News, October 31, 2008)

August Arrivals Data Reflect Global Slowdown

¶10. (U) South African tourist arrival statistics for August 2008 revealed decreases across all major source markets, with Far East markets dropping the most. South African Tourism (SAT) Chief Operations Officer Didi Moyle blamed the drastic decreases on a global tourism slowdown related to the global economic crisis. "The good first quarter we had in 2008 was based on travel that was booked in 2007. What has been happening since then month-by-month is that the market is slowing and for the first time in August there was an actual decline. It is at this time in the cycle that we generally lift from the low season (May to July). This didn't happen this year," said Moyle. Asian markets accounted for the most significant decreases in August monthly figures. The Chinese source market decreased by 47.5% y/y and the Japanese market dropped by 17% y/y for August arrivals. The Asian markets were also the first to show declines this year with a poor July performance. "When there is a crisis - particularly of an economic or financial one - the Japanese stop traveling very quickly. In the USA and Europe the lead times are longer," said Moyle. The key source markets for international arrivals in August were:

UK, down 7.9% from 36,426 to 33,562
USA, down 10.1% from 28,760 to 25,845
Germany, down 15.9% from 16,071 to 13,510
France, down 5.8% from 11,836 to 11,155
Italy, down 4.6% from 10,998 to 10,494
The Netherlands, down 10.4% from 10,061 to 9,019
Australia, up 1.7% from 8,578 to 8,722

Spain, down 3.3% from 5,672 to 5,487
India, down 7.2% from 5,202 to 4,827
Canada, little difference from 4,104 to 4,012

(Travel Hub, November 6, 2008)

Blackouts Loom in 2009 as
Electricity Saving Fails

¶10. (U) South Africa may face fresh power cuts early in 2009 because voluntary energy savings have fallen "woefully" below the required 10%, new Minister for Public Enterprises Brigitte Mabandla said. State-owned utility Eskom has been rationing electricity since January, when the national grid nearly collapsed. Mabandla said savings on a voluntary basis were only 2%, well short of the 10% efficiency correction needed to provide the necessary reserve margin to stabilize the system. "Should the necessary savings levels not be achieved, then the risk of load-shedding to prevent system-wide blackouts increases massively going into 2009 and beyond." Under the new program, she said, consumers using more than the required limit of 90% of their normal power requirements would face tariff penalties. Mabandla noted Eskom had made progress on reducing unplanned outages since last January 2008 and had increased coal stockpiles to a conservative 30 days across power stations. On the decision between Westinghouse and Arevea for new nuclear build, Mabandla said, "no final decision has been made. The real challenge that we have to overcome is the capital cost of the nuclear build relative to the cost of a coal build." (Sunday Times, Engineering News, November 2, 2008)

Political Nuclear Meltdown

¶11. (U) South Africa's trillion-rand "nuclear renaissance" hangs
Q11. (U) South Africa's trillion-rand "nuclear renaissance" hangs
in the balance as funding problems and political indecision bite into the Mbeki administration's grand design for a fleet of new nuclear power stations and a full-scale support industry. Eskom has missed deadlines - most recently during the week former President Thabo Mbeki was ousted - to decide on a preferred bidder for "Nuclear 1", a new-generation conventional power station. Press reports note Eskom has asked the bidders Areva and Westinghouse to be patient until December, after delays over the course of 2008. An energy analyst said, "As far as I know the number one reason it keeps getting deferred is money." A further factor was "the new guys taking over from the old and not liking the decisions of the old." Compounding matters is access to finance and Eskom's downgraded credit ratings. Eskom has formally applied to the Treasury to guarantee its capital expansion-related debt. (Mail &

Guardian, October 31, 2008)

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Companies Set Aside Land to Preserve Grasslands
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¶12. (U) Eight South African forestry companies have allocated 45,000 hectares of grasslands at 37 Mpumalanga and Kwa-Zulu Natal (KZN) sites to be declared nature reserves or protected land. Within each area categorized as grasslands, there could be hundreds of species with extensive, old root systems, said Grasslands Program official Steve Germishuizen. Germishuizen noted South African grasslands have been overlooked or mistreated for a long time. According to Germishuizen, farmers have ploughed over them, foresters have planted them with alien species, and commercial development has encroached upon them. The recently established Grasslands Program is meant to help increase the number of protected grasslands, especially the "mist belt grasslands" in KZN and Mpumalanga provinces, where agriculture and forestry industries threaten them. Germishuizen said that the Grasslands Program will work with the provincial conservation agencies and tribal

authorities on the 37 sites to improve grassland management capacity and protect the native species. (Pretoria News, October 27, 2008)